Market Distortion in Financial Services: Can the Credit Union Tax Exemption be Justified?

Michigan Bankers Association

Credit union study by Northwood University, commissioned by Michigan Bankers Association.

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Executive Summary

This study examines statutory and regulatory exemptions granted to credit unions in the United States with a special emphasis on Michigan. The market advantages afforded credit unions result in effects that conflict with their originally intended public policy purpose and goals. The study thoroughly examines the history, purpose and growth of credit unions in the United States from the early 1900's to date. It examines the economic and public policy effects of credit unions in the United States, their tax exempt status and exemption from the Community Reinvestment Act (CRA). The study questions, from a public policy perspective, whether or not the Unites States **should** continue income tax exemptions for credit unions at the federal and state level while continuing the exemption for credit unions from the CRA. The study also questions whether the U.S. **can afford** the continuation of income tax exemptions for credit unions given the need for: A.) business tax reform, and B.) our mounting U.S. national debt.

Study Highlights

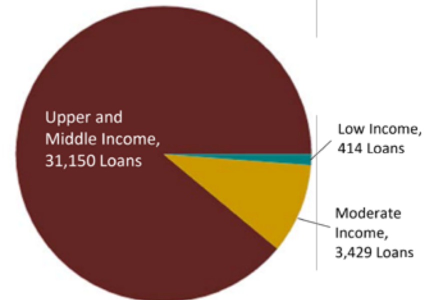
- In 1937, federal statutes exempted credit unions and savings and loan associations from the payment of federal corporate income taxes. Congress originally provided the exemption to subsidize financial services for individuals with low and moderate income. Today, however, evidence shows that this tax exemption is instead being used to market products and services largely to wealthy individuals and businesses, not the intended individuals. A 2006 study by the U.S. Government Accountability Office (GAO), found that 14 percent of credit union customers were of low-income and 17 percent were of moderate-income, compared with 24 percent and 16 percent for banks, respectively. Moreover, GAO found that 49 percent of credit union customers were of upper-income compared to 41 percent for banks. All federally insured U.S. credit unions have grown from 13.7 million members in 1980 to more than 100 million members by the end of 2014.

- Credit unions have outgrown their original charters and their original purposes especially in Michigan **(See Charts 1-3)**.

Chart 1: Mortgages Originated by Credit Unions as Percentage of Total (in Michigan)	
Lower Income	1%
Upper Income	37%

Source: Home Mortgage Disclosure Act records for 2013.

Chart 2: Low-Income Credit Union Borrowers Receive Very Few Loans (in Michigan)

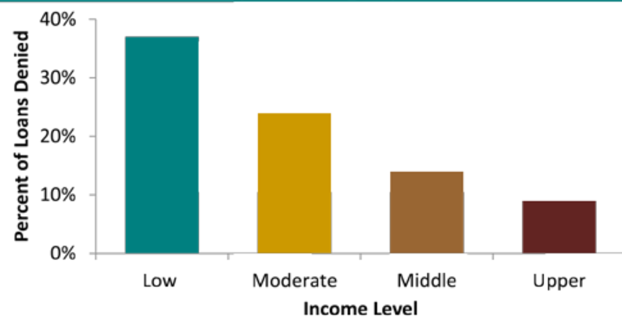


Source: Home Mortgage Disclosure Act records for 2013.

- Today, there are more credit unions in the state of Michigan that have greater than $1 billion in assets than there are Michigan-based banks that have greater than $1 billion in assets.

- The original reasoning for the federal tax exemption for credit unions was to enable an "infant industry" that was serving persons in closely-knit groups to service and grow. Today, the credit union industry has far outgrown the need for federal subsidies in the form of income tax exemption and exemption from certain regulations.

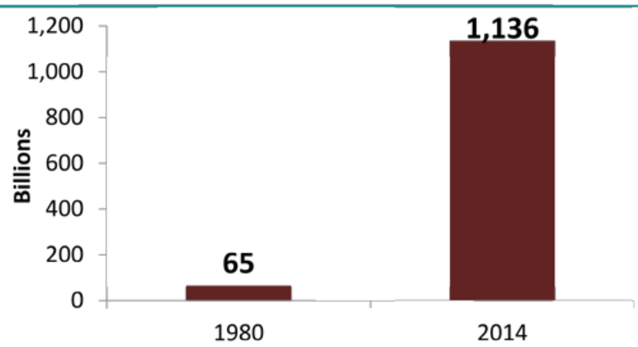
Chart 3: Low-Income Credit Union Borrowers Have Higher Denial Rate (in Michigan)



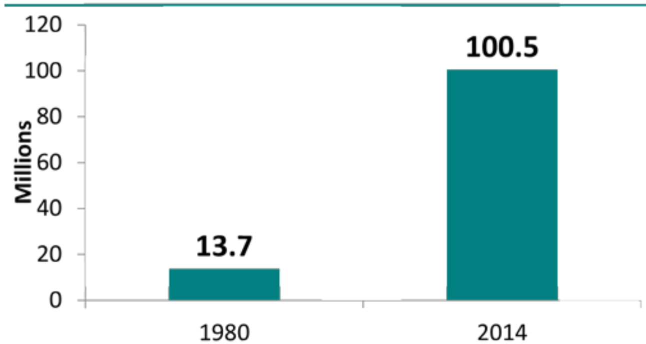
Source: Home Mortgage Disclosure Act records for 2013.

- The CRA passed in 1977, was designed to encourage banks to meet the needs of the local communities. In furtherance of its purpose to ensure chartered depository institutions fulfill obligations to meet the credit needs of low to moderate income communities in which they are chartered, the Act implements a regulatory regime that subjects banks to various examinations, based on the size of total assets held by the bank (Cassidy, 2015). Credit unions were left out of the requirements, believing they were too small to be subject to the regulation and that the communities they served were too narrow based on a homogenous membership. However, many credit unions are large enough to compete with small- and intermediate- sized banks and are located in diverse communities where they do not serve the wide ranging needs of said communities as adeptly as banks.

Furthermore, they do not fall under CRA requirements as do their bank competitors. The total asset value of U.S. credit unions in 1980 was $65 billion, and by the end of 2014, the total asset value of U.S. credit unions had surpassed $1.136 trillion, with 229 credit unions having assets of $1 billion or more. If the CRA has been good for banks in improving diversity of loan portfolios and better serving all members of the community in which they are located, surely the CRA or a version of it would greatly improve the practices of the $1 trillion plus credit union segment of the U.S. economy **(See Charts 5-7)**.

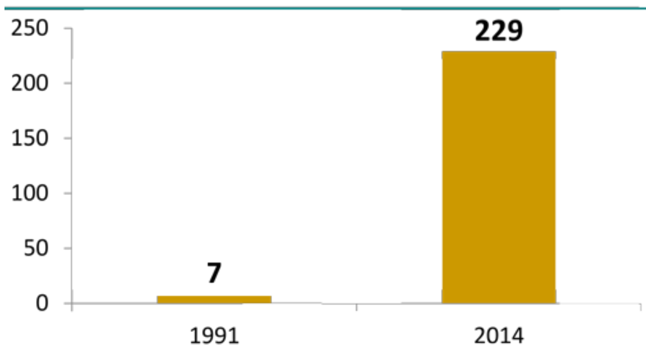


- Credit unions are not serving the needs of communities as defined by the CRA.



- Credit union lending to low-income individuals is extremely low in Michigan and on a national aggregate. This was one of the major tenets for the original reasoning for the passage of the CRA.

- Credit unions are not subject to community service CRA tests. If the goals of the CRA are worthy goals, there is absolutely no reason that credit unions should not be subject to the CRA as amended.



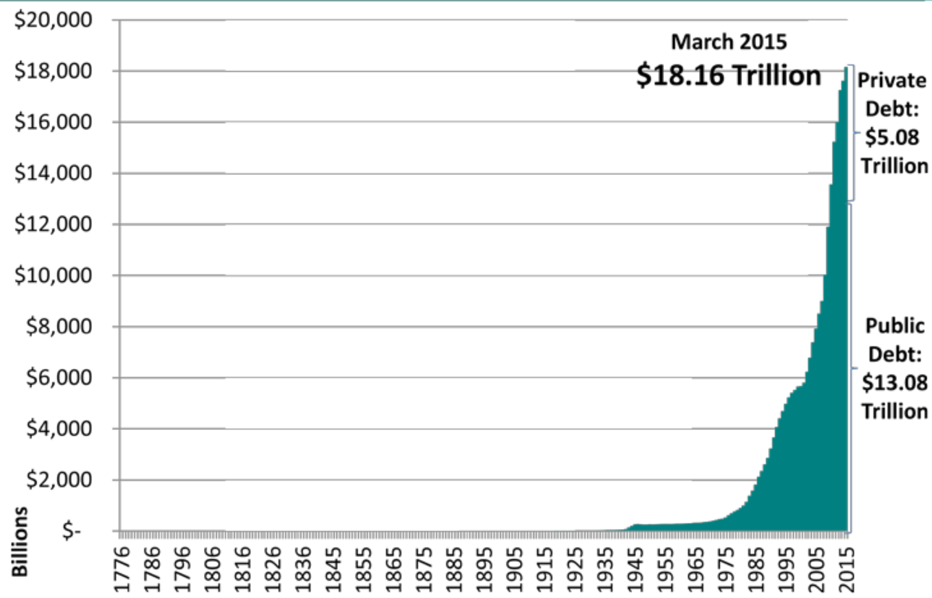
- The study finds that annually credit unions receive an unfair income tax exemption of $1.5 billion. Out of the annual $1.5 billion income tax subsidy to credit

unions, at least $500 million annually is a dead weight loss (a dead weight loss is a loss of economic efficiency that occurs when proper market equilibrium for a good or service cannot be achieved due to non-market factors, i.e. in this case a special interest tax exemption). The remaining $1 billion goes to depositors in the form of higher interest rates earned, to borrowers in the form of lower interest rates paid on loans, and the credit unions themselves in the form of higher retained earnings for expansion and growth. This not only creates an unfair advantage for credit unions in comparison to banks and other financial institutions, but also leads to inefficiencies in the financial system in general.

Conclusion

Whether or not the tax exempt subsidies were once justified in the public interest, it is clear today that credit unions can no longer justify having tax exemptions not afforded to their banking counterparts. It is hard to imagine that a small bank in the Upper Peninsula of Michigan, serving the diverse needs of an impoverished community should face the burdens of an income tax while a local credit union remains tax exempt. It is even more difficult to justify that the 229 U.S. credit unions that have assets of $1 billion or more and make up a disproportionately large segment of an industry that now has more than $1.136 trillion in assets, remain income tax exempt. Again, how can one justify that 229 mega credit unions are afforded an income tax exemption while that small rural bank in the Upper Peninsula of Michigan continues to pay income taxes? The credit union tax exemption is a Depression-era tax break that for many credit unions has outlived its purpose. It no longer supports the public policy of providing financial services to low- and moderate-income consumers. Previous administrations—both Democratic and Republican—have recommended ending credit union industry's tax exemption. The time has come for Congress to abolish this exemption. It would be a fiscally sound way to help

reduce the U.S. debt and eliminate distortions in the financial services industry **(See Chart 4).**



In addition, if the CRA is good for banks at all levels why should it not apply to credit unions as well? The data shows that credit unions in Michigan and nationally are underserving minorities and lower income populations relative to their original charter and purpose and are certainly lagging behind relative to banks in serving said populations. Clearly, the CRA is something that should apply to all financial institutions including credit unions especially those with a billion dollars in assets or more.

I. Overview

This study examines statutory and regulatory exemptions granted to credit unions and the market advantages afforded them that have resulted in effects that conflict with their originally intended public policy purpose.

In 1937, federal statutes exempted credit unions and savings and loan associations from the payment of federal corporate income taxes. Congress originally provided the exemption to subsidize financial services for individuals with low and moderate income. Today, however, evidence shows that this tax exemption is instead being used to market products and services largely to wealthy individuals and businesses, not the intended individuals. A 2006 study by the U.S. Government Accountability Office (GAO) found that 14 percent of credit union customers were of low-income and 17 percent were of moderate-income, compared with 24 percent and 16 percent for banks, respectively. Moreover, GAO found that 49 percent of credit union customers were of upper-income compared to 41 percent for banks.

Credit unions were originally small, community-focused credit cooperatives organized to encourage credit availability to lesser served communities, usually tightly defined groups with common employment, church or other affiliation. Savings and loan (S&L) associations, as member-owned co-operatives, enjoyed the same policy. In both cases, persons closely affiliated deposited small amounts of money for safekeeping through their credit union or S&L and this money was loaned to others in this closely-affiliated community for home loans, car loans and other basic credit needs.

By 1951, Congress eliminated tax exemptions for mutual insurance companies (1942) and mutual savings banks (1951). At that time it was clear the financial industry matured and included many large and sophisticated financial institutions offering a wide array of credit and financial products. Congress later removed the S&L tax subsidy and the thrift industry began paying the same federal income taxes as other corporate citizens.

In 1977, the CRA was enacted as federal law, mandating regulated providers of financial services to the consuming public to make products and services available to all citizens and communities. Its core thrust was to assure service and credit availability to communities of lower and moderate income. In addition to these service mandates, the Act and subsequent regulations required extensive data collection and reporting to regulators to affirmatively demonstrate satisfactory service to all markets.

The corporations in the credit union sector of financial services, however, were exempted from these mandates, both the requirements to serve all communities and to collect data on their service patterns.

Today, the credit union industry has grown to increasingly emulate other state and federally chartered financial institutions. Now a $1.136 trillion industry segment, this sector is growing at very rapid rates and expanding into many credit and financial product lines indistinguishable from most other bank corporations. The credit union industry is consolidating at a very rapid rate, creating multi-billion dollar financial giants to rival many large banks. It is an industry segment today that has virtually no limits on the customers it may serve, is expanding aggressively into

all forms of corporate lending, uses its tax subsidy to cover less efficient operating costs, and fails to address the needs of lower and moderate income individuals **(See Table 1)**.

Table 1: A National Snapshot of Credit Union Performance in 2014

"2014 was a very productive year for America's credit unions" according to NCU board chairman Debbie Matz. Memberships, assets, deposits and net worth saw positive growth in the Fourth Quarter of 2014 as well as on an annual basis. Net interest margins held steady in the Fourth Quarter and were slightly higher than margins at the end of 2013.

- **Outstanding loan balances at federally-insured credit unions grew 10.4% for 2014 making it the largest year-over-year percentage increase since 2005. Total loans reached just under $713 billion.**
- **Loan growth at U.S. credit unions increased from $653.1 billion in 2013 to $720.8 billion in 2014.**
- **Credit union membership increased 3.1% from 97.5 million members in 2013 to 100.5 million in 2014.**
- **Net worth of U.S. credit unions grew 7.5% in 2013 from $115.9 billion to $124.6 billion.**
- **Auto loans made by U.S. credit unions grew by 15.7% in 2014 to $232.1 billion.**
- **Deposits at U.S. credit unions grew by 4.5% in 2014 from $922 billion in 2013 to $963.1 billion in 2014.**
- **Net income at U.S. credit unions increased by 7.9% to $8.87 billion in 2014. Net income in 2014 was up over 93% compared 2010 levels.**
- **America's 6,402 federally insured credit unions had just under $1.14 trillion in assets at the end of 2014.**
- **America's 6,402 federally insured credit unions had 100,514,100 members at the end of 2014.**
- **Of the 6,402 federally insured credit unions in the U.S. in 2014, 229 or 3.36% had assets of $1 billion or more.**
- **U.S. federally insured credit unions with $1 billion or more in assets comprised 3.6% of all U.S. credit unions and held 55.1%, or just over $625 billion, of total credit union assets. The same population served 46.8% of credit union membership with just over 47 million members.**

The aggregate net worth ratio for federally insured credit unions was 10.93 percent at the end of the third quarter, 17 basis points higher than the previous quarter and 28 basis points higher than the end of the third quarter of 2013. NCUA reported that 97.5 percent of federally insured credit unions had a net worth ratio at or above the statutorily required 7 percent level.

II. The Unfair Credit Union Subsidy in Michigan

Congress granted credit unions a tax exemption so they could meet the credit needs of people of modest means. But the evidence indicates that, in Michigan, credit unions are no longer focused on their original mission to serve disadvantaged members of their communities. In fact, Michigan credit unions are using their tax advantage to originate mortgages to upper-income individuals who do not need taxpayer subsidized financial services. This is a misuse of the credit union tax exemption and provides unfair competition to other financial corporations. In 2013, only 414 mortgages originated by Michigan credit unions, went to low-income borrowers in Michigan, compared to 31,150 mortgages originated to middle- and upper-income borrowers, according to the most recent Home Mortgage Disclosure Act (HMDA) data. Moreover, 180 HMDA reporting credit unions serving Michigan did not make a single loan to a low-income individual. Furthermore, 21 credit unions originated mortgages solely to upper-income individuals.

In one example, a large Michigan-based credit union, Lake Michigan Credit Union with $3.2 billion in assets, abused the tax exemption and originated 7,630 mortgages in 2013. Only 56 of those mortgages went to low-income borrowers, whereas 2,958 mortgages went to upper-income borrowers. Instead of using the tax exemption to serve people of modest means, the tax subsidy was used to benefit higher-income borrowers **(See Charts 1-3 & Table 2)**.

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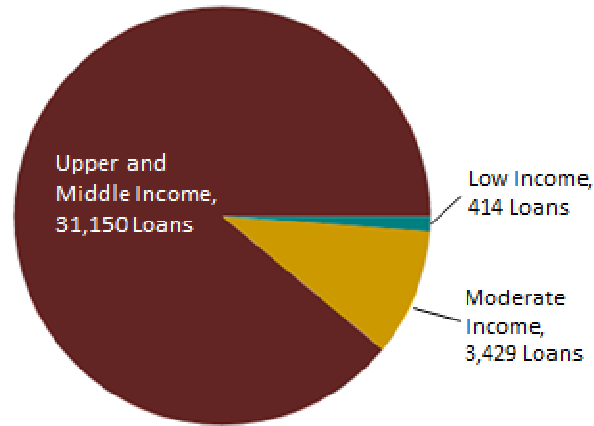

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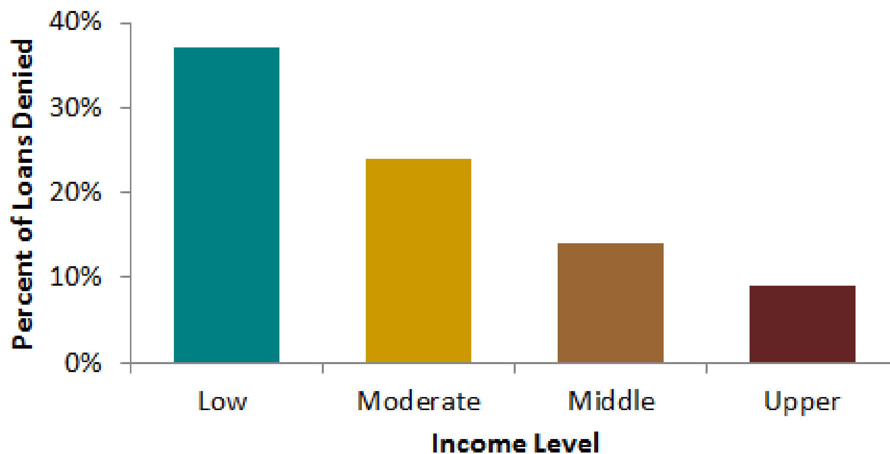


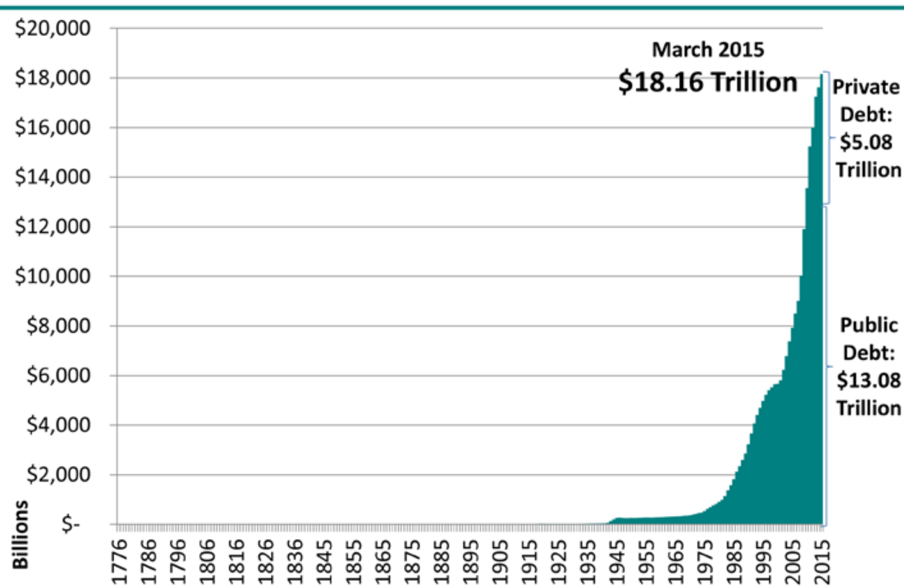
Source: Home Mortgage Disclosure Act records for 2013.

Table 2: Snapshot of Michigan Credit Union Performance in 2014

Michigan credit unions had a banner year as measured by third quarter 2014 data. Credit union membership growth, small business borrowing, and automotive loans have increased tremendously in Michigan over the past year (Third Quarter 2013 – Third Quarter 2014). In the third quarter of 2014, an astounding 97,175 new members joined Michigan credit unions making the total members over 4.73 million. This 2.5 percent growth rate occurred even while population remained consistent over several years and may be attributed to the low loan rates, increased member services, and additional discounts offered to credit union members. As Michigan's economy improved, there was also a notable increase in the small businesses taking advantage of business loans with credit unions, increasing from $192.7 million in 2004 to $1.4 billion end of third quarter 2014. Discount programs offered by credit unions serve as a distinct advantage to households and are evident by the increase in automotive loans. In 2014, over 160,000 credit union members took advantage of credit union discounts to buy a new car or truck in 2014.

- **Third Quarter 2013 – Third Quarter 2014 increase in new auto loans: 12.3%**
- **Third Quarter 2013 – Third Quarter 2014 increase in used auto loans: 14.8%**
- **Third Quarter 2013 – Third Quarter 2014 increase in first time mortgages: 7.5%**
- **Third Quarter 2013 – Third Quarter 2014 increase in unsecured loans: 11.1%**
- **Third Quarter 2013 – Third Quarter 2014 increase in member business loans: 17.3%**
- **Michigan's 274 credit unions totaled $48.8 billion in assets at the end of third quarter 2014.**
- **Michigan's 274 credit unions totaled $28.7 billion in total loans at the end of third quarter 2014.**
- **Michigan's 274 credit unions totaled $41.3 billion in total deposits at the end of the third quarter 2014.**
- **Of Michigan's 274 credit unions, 9 have assets of $1 billion dollars or more.**
- **Michigan's $1 billion or higher credit unions make up 3.3% of Michigan credit unions and hold $19.2 billion or 39.4 % of all Michigan credit union assets, $11.6 billion or 40.3% of Michigan credit union total loans, and $15.5 billion or 38.3% of Michigan credit union total deposits.**

Whether or not the tax exempt subsidies were once justified in the public interest, it is clear that the credit union giants are functionally indistinguishable from other financial and lending institutions. The credit union tax exemption is a Depression-era tax break that for many credit unions has outlived its purpose. It no longer supports the public policy of providing financial services to low- and moderate-income consumers. Previous administrations—both Democratic and Republican—have recommended ending the credit union industry's tax exemption. It is a fiscally sound way to reduce the U.S. $18.2 trillion debt and eliminate unfair competition in the financial services industry **(See Chart 4)**.



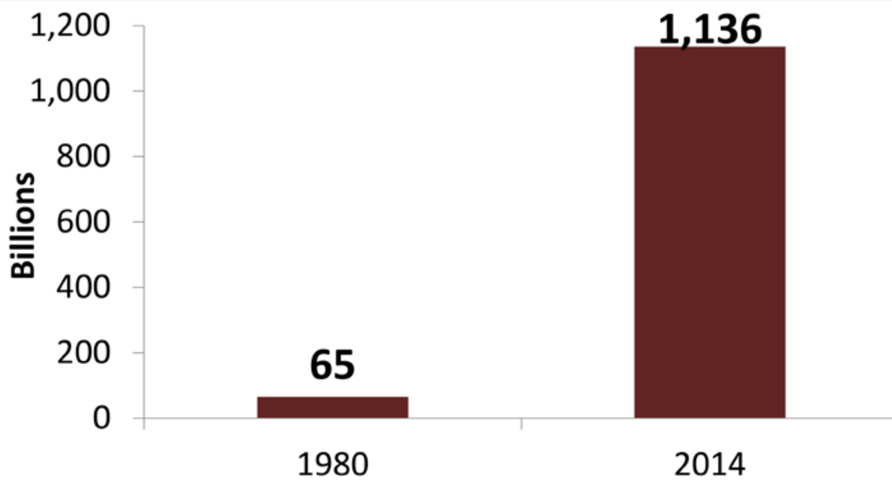
The Need for Uniform Community Reinvestment Act Requirements

The CRA was passed in 1977, designed to encourage banks to meet the needs of the local communities. In furtherance of its purpose to ensure chartered

depository institutions make obligations to meet the credit needs of low- to moderate-income communities in which they are chartered, the Act implements a regulatory regime that subjects banks to various examinations, based on the size of total assets held by the bank (Cassidy, 2015). Examiners from four federal agencies use the data to assess each institution and grade the institutions lending activities including lending to borrowers at different income levels, geographic distribution of loans, community development services and access to branches (NCRC Report).

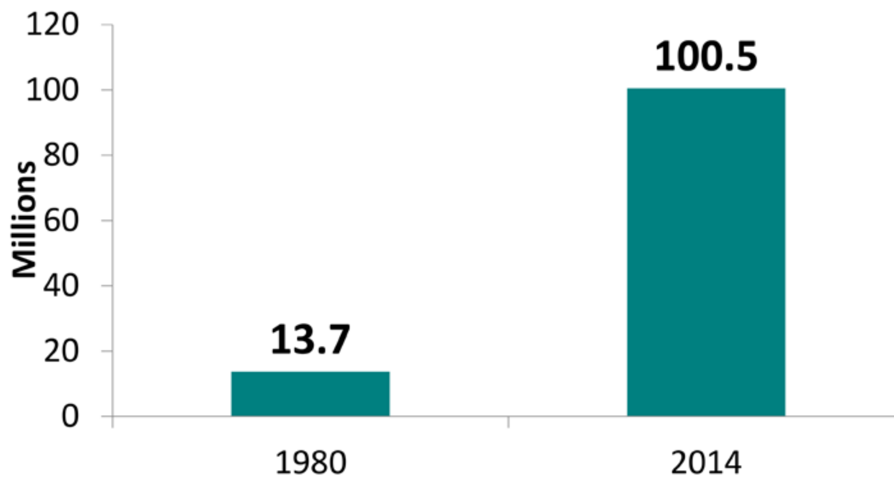
Credit unions were left out of the requirements, believing they were too small to be subject to the regulation and that the communities they served were too narrow based on a homogenous membership. However, many credit unions are large enough to compete with intermediate- and small-sized banks and have diverse memberships that reflect the communities in which they are established; yet they still do not fall under the standards as other financial institutions. It is now common for large Michigan chartered credit unions to have markets encompassing much of the state, while remaining free to ignore low income areas. **(See Charts 5-7).**

Chart 5: Total Assets of Federally Insured U.S. Credit Unions

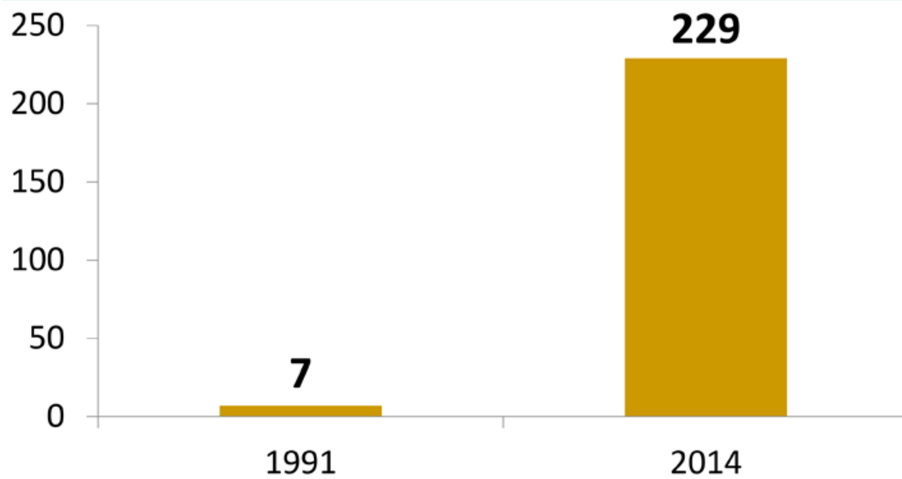


Source: NCUA Annual Report

Chart 6: Membership Growth in U.S. Federally Insured Credit Unions



Source: NCUA Annual Report



If the CRA is a tool for better lending and access for low to moderate income borrowers, it should apply to all lending institutions. Data shows that credit unions in Michigan and nationally are underserving lower income populations relative to their original charter and purpose and are lagging behind relative to banks in serving said populations. The CRA should apply equally to all financial institutions including credit unions, especially those with a billion dollars in assets or more.

This study will review the origin of credit unions and their favored tax status to serve populations that did not have access to bank resources or were less attractive lending customers. But over time, credit unions have leveraged that benefit to become as large as many banks and offer similar products and services with a bias to more wealthy

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customers. Economic models show that, by removing the uncompetitive advantage, communities would benefit from additional oversight and reinvestment and a significant tax loophole would be closed to level the playing ground among all financial institutions and all consumers.

III. A History of Credit Unions in the United States

According to the National Credit Union Administration (NCUA), credit unions in the United States serve over 100 million members comprising roughly 44 percent of the economically active population. As of August 2014, the largest credit union in the U.S. was the Navy Federal Credit Union, which holds over $60 billion in assets, and over 5 million members. Total credit union assets in the U.S. reached $1 trillion as of March 2012 (Birch 2012) and totaled $1.136 trillion at the end of 2014 according to CUDATA.com (2015).

But credit unions weren't always this prolific a component of United States economy. A little more than 100 years ago, the first credit union was established in America in 1908. St. Mary's Bank of Manchester, New Hampshire was the first credit union, founded by French-speaking immigrants from the maritime provinces of Canada. This was followed by New York and Texas in 1913, by Rhode Island in 1914, and then by North Carolina, Oregon and South Carolina in 1915.

Unlike the credits unions that already existed in Germany and Quebec, credit unions in the United States emerged from an employer-based bond of association. These common bonds worked as the glue between the members of credit unions and co-operative banks. Common bonds substituted for collateral in the early stages of the financial system development. Hermann Schulze-Delitzsch, an early co-operative organizer, explained the concept of the 'bond of association' at a credit union meeting in this way:

> Your own selves and character must create your credit, and your collective liability will require you to choose your associates carefully, and to insist that

they maintain regular, sober and industrious habits, making them worthy of credit. This employer-based bond permitted credit unions to use future paychecks as a form of collateral.

In the United States, credit union memberships were historically formed around a single church, place of work, labor union or town. According to the Uniform Credit Union Law:

> A credit union is a cooperative society incorporated for the two-fold purpose of promoting thrift among its members and creating a source of credit for them at legitimate rates of interest for provident purposes. (Neifeld, 1931).

Additionally, credit unions were supposed to educate their members about the need to be thrifty, make sound investment decisions and how to manage their money efficiently.

Another unique feature that made credit unions different from commercial banks was that credit unions were supposed to make what is commonly referred to as "loans on character." Since the intent of Congress was to keep credit unions to small cooperatives, credit unions had the fiduciary responsibility of evaluating the characters of its members before extending any loans. The evaluation of the personal character of an individual member and his or her ability to pay back the loan was primarily based on the interpersonal dynamics of the credit union membership. Since all the members were sharing a common bond, it was assumed that members would have a good understanding of each other and loans were

advanced on the basis of these relationships rather than abstract impersonal credit reports.

In 1934, President Franklin D. Roosevelt signed the Federal Credit Union Act into law, creating a national system to charter and to supervise federal credit unions. The Federal Credit Union Act formalized limited membership to "groups having a common bond of occupation or association, or to groups within a well-defined neighborhood community or rural district" (High Court 1988). The original purpose of credit unions was to assemble together a group of members that all knew each other and had a common bond for them to pool their resources together, provide credit to friends and close community members, and to collectively hold each other accountable. Today, many credit unions have grown into highly profitable, billion dollar institutions offering a full range of financial services, including commercial lending, to just about anyone. How did credit unions expand to this point, expanding to customer bases outside of their original intent?

The credit union movement grew steadily in the 1940s and 1950s as the United States experienced post-war economic recovery. By 1960, credit union membership amounted to more than 6 million individuals belonging to more than 10,000 federal credit unions. The 1970s also brought major changes in the products offered by financial institutions and credit unions found they also needed to expand their services. In 1977, federal legislation allowed U.S. credit unions to offer share certificates and mortgages. A 1982 federal regulation allowed many credit unions to grow memberships, consolidate and expand into multiple states.

The NCUA is the independent federal agency created by the United States Congress to regulate, charter and supervise federal credit unions. In 1982, the NCUA reinterpreted the "common bond" requirement for credit unions. The severe economic downturn in the 1980s, which led to the failures of many local and small businesses (bread and butter for credit unions), made NCUA rethink the sustainability of credit unions in the marketplace. In order to strengthen their financial base, NCUA reexamined the requirements of common bond clause and decided that credit unions could allow multiple "select employee groups" with no other common bond among each other to join a single credit union. This reinterpretation fundamentally changed the nature and the scope of the operation of credit unions in the United States.

This new interpretation helped credit unions to restructure their memberships with different select employee group in a single credit union, thereby allowing them to diversify their risks, and to consolidate their holdings, with large credit unions merging with smaller credit unions. This consolidation made credit unions large and diverse, and less susceptible to failures. Credit unions began operating like commercial banks. The reinterpretation of the "common bond" clause and the resulting restructuring and consolidation of the credit unions, coupled with federal tax exemption status and lack of regulatory requirements like mandatory participation in the CRA, allowed credit unions comparative advantages vis a vis banks and other financial institutions. The restructuring and consolidation of credit unions resulted in formidable growth of the credit union industry, making it more

than a trillion dollar industry with 229 credit unions having assets of more than $1 billion dollars.

A study by the United States Government Accountability Office (GAO) found that consolidation in the credit union industry has resulted in two distinct groups of organizations: larger credit unions that are similar to banks in the products they offer and smaller, traditional credit unions that provide more basic depository services. The number of billion-dollar credit unions has increased by more than 3,271 percent in the past 23 years—from only seven in 1991 to 229 in 2014 **(See Chart 7)**. Seventy-five percent of the $8.6 billion profit generated by the credit union industry in 2012 came from credit unions whose assets exceeded $500 million.

The NCUA, with the backing of the full faith and credit of the U.S. government, operates and manages the National Credit Union Share Insurance Fund (NCUSIF), insuring the deposits of more than 100 million account holders in all federal credit unions and the overwhelming majority of state-chartered credit unions. The NCUA is governed by a three-member board appointed by the President of the United States and confirmed by the United States Senate. The President also chooses who will serve as chairman of the NCUA. Board members serve six-year terms, although members often remain until their successors are confirmed and sworn in. As of June 2014, there were 6,429 federally insured credit unions, with assets totaling more than $1 trillion and net loans of $673.9 billion. U.S. credit unions may either be chartered by the federal government or by a state government.

A financial institution that provides financial services for corporate credit unions was also established—a credit union for corporate credit unions, if you will—an example was U.S. Central Credit Union. U.S. Central, like all other credit unions, is nonprofit and owned by its members, which in this case are also corporate credit unions. Similar to the role that corporate credit unions play to natural-person credit unions, U.S. Central provides cash liquidity and investment services as well as risk-management and analysis services to its member credit unions. At its height, U.S. Central managed more than $49 billion in assets, but was liquidated by the NCUA in 2012.

The states of Delaware, South Dakota and Wyoming do not regulate credit unions at the state level; in those states, a credit union must obtain a federal charter to operate. All federal credit unions and 95 percent of state-chartered credit unions have “share insurance” of at least $250,000 per member through the NCUSIF, the same value as the Federal Deposit Insurance Corporation (FDIC). However, the NCUSIF has a higher insurance fund capital ratio than the FDIC as of 2006. The NCUSIF and the FDIC are both independent federal agencies backed by the full faith and credit of the U.S. government.

On a basic level, banks are owned by shareholders whereas credit unions are owned by their members, which share a common bond. Looking further, banks are for-profit institutions and make money by charging interest on loans, collecting account fees and reinvesting money to earn additional profits. But as for-profit companies, they also pay local, state and federal taxes. Credit unions, on the other hand, are not-for-profit institutions. Technically, credit unions are owned by their

account holders, known as members. Any profit earned by a credit union is either invested back into the organization or paid out to members as a dividend. As a not-for-profit institution, most credit unions pay no state income tax and all pay no federal income tax, meaning they can charge lower interest rates than banks for most financial services.

IV. Legal History of Credit Unions – A Timeline

Date	Event
November 24, 1908	**St. Mary's Bank of Manchester, New Hampshire, is the first credit union formed in the United States.**
1909	**Massachusetts becomes the first state to pass legislation enabling credit unions, with the passage of the Massachusetts Credit Union Act of 1909.**
1934	**Congress passes the Federal Credit Union Act of 1934 (FCUA).** "a cooperative effort to serve the productive and provident credit needs of individuals of modest means." "a meaningful affinity and bond among members, manifested by a commonality of routine interaction, shared and related work experiences, interests or activities, or the maintenance of an otherwise well understood sense of cohesion or identity is essential to the fulfillment of the public mission of credit unions."
1937	**Amendment to the FCUA creates a special tax exemption for federal credit unions.** "Credit Unions, unlike many other participants in the financial services market, are exempt from Federal and most State taxes . . . because they have the specified mission of meeting the credit and savings needs of consumers, especially persons of modest means."
1951	**Tax exempt status of savings & loans and mutual savings banks is revoked by Congress.** "Mutual savings banks are in active competition with commercial banks and life insurance companies for public savings, and they compete with many types of taxable institutions in the security and real estate markets . . . continuance of the tax-free treatment now accorded mutual savings banks would be discriminatory."
1968	**Federal credit unions authorized to issue secured loans with maturities of 10 years; unsecured loan limit is increased to $2,500.**
1970	**Congress amends the FCUA to create the National Credit Union Administration ("NCUA") to regulate federal credit unions.**

	Amendment also establishes the National Credit Union Share Insurance Fund (NCUSIF), which extends federal deposit insurance protection to credit union consumers.
1977	**Congress amends the FCUA to expand the savings, lending and investment powers of credit unions.** Allows credit unions to issue 30-year residential mortgages, 15 year mobile home loans, and home improvement loans.
October 12, 1977	**Congress passes the CRA.** Law seeks to address discrimination in lending to individuals and businesses in low to moderate income neighborhoods. The Act's regulations apply to banks and savings associations, but not credit unions.
1980	**Congress passes the Depository Institutions Deregulation and Monetary Control Act, authorizing credit unions to offer checking accounts.**
1982	**Congress passes the Garn-St. Germain Depository Institutions Act, which broadens the mortgage loan authority of credit unions.** NCUA expands the definition of common bond to include multiple employer groups, allowing credit unions to expand into multi-state institutions.
1983	**The Grace Commission Report on cost control is published.** "credit unions are no longer a unique breed of financial institution" and should no longer be exempt from taxes, as they now compete directly with banks and savings & loan institutions.
1984	**NCUA broadens the "field of membership" definition, as well as credit union investment authorities.** Allows retirees to band together to form a credit union. Allows credit unions to invest in Eurodollars, bankers acceptances, cash forward agreements, reverse purchase transactions. Loan limits, documentation, and maturity are no longer regulated by the NCUA, now fall to the discretion of the individual credit union.
1994	**NCUA revises field of membership rules, to include occupational groups of up to 100 persons without NCUA approval.**
1997	**National total credit union membership reaches 71 million, more than double the number of members in 1991.** Member business loans reach $2.9 billion outstanding, meaning that more than 30 percent of the total assets held by credit unions are devoted to commercial loans.
February 25, 1998	**In *NCUA v. First National Bank & Trust*, the Supreme Court held that the NCUA regulation violated the definition of "common bond" in the FCUA, and held the regulation illegal.**

Date	Event
August 5, 1998	**Congress overrides the Supreme Court's decision, passing the Credit Union Membership Access Act, which allows multiple employer groups to form credit unions, and thus upholding the NCUA regulation.**
2003	**NCUA issues Interpretive Ruling and Policy statement 03-1.**
2004	**NCUA approves the charter for LA Financial.** New charter includes 9,637,494 potential members, the largest community credit union approved to date.
March, 2012	**National total credit union assets surpass $1 trillion dollars.**
September, 2012	**National total credit union membership surpasses 100 million members.**

IV. Rapid Growth of the Credit Union Industry and the Uncompetitive Federal Tax Exemption Advantage

There is no doubt that the transformation of credit unions into highly competitive financial institutions since the 1980s is a real force in the financial marketplace. Few would doubt that a big part of the success of credit unions has been at the expense of financial institutions who are not federally tax exempt and who are not free from different federal and state mandates. Given that credit unions and banks now share basically the same functions in communities and compete in the same space for customers, it is imperative that the tax exempt status of credit unions should be reviewed. Tax exemption for credit unions is nothing but a tax expenditure subsidizing a single industry and tax revenue loss for the federal government. Given the present growth trajectory of credit unions, the projected loss of federal tax revenue could be in the billions of dollars. The Office of Management and Budget's Analytical Perspectives calculated that the tax expenditure on credit unions is expected to be the 17th largest tax expenditure of the federal government.

Large credit unions realize “profits” in ways that banks do not. Most large credit unions have high levels of net income (what they call retained earnings), which are not taxed. The credit unions conduct expansive branch openings and spend millions on marketing with the tax savings. For example, Massachusetts-based Digital Federal Credit Union spent $5.2 million for the naming rights to the Worcester Centrum, a sports and entertainment arena. Given it effectively receives a 35 percent federal tax break, individual taxpayers are paying for almost $2 million of those naming rights.

Large credit unions also offer a full range of services, including commercial lending, which seems at odds with interpretations of common-bond lending criteria. Credit unions were never intended for commercial lending, which could put their federal insurance and members at greater risk. In fact, the credit union tax exemption has enabled them to rapidly increase their own market share and double their business lending in the past five years (it grew by almost 30 percent since 2009).

A demographic survey by the Credit Union National Association shows that the average household income of credit union members is 20 percent higher than nonmembers—$55,120 versus $45,790. Credit union members are also more likely to own a home, be employed full time and have a college degree than nonmembers. These populations suggest that credit unions are not adequately honoring their commitment to low- to moderate-income communities. There is little reason to object to credit unions when they adhere to their original charter. However, they have moved into unfair territory when they became tax exempt financial institutions

that compete directly with banks. They have moved beyond the scope of their original purpose and no longer primarily serve lower income customers, all the while creating an additional tax burden to society due to their tax exempt status. Credit unions have outgrown their special tax exempt status especially with the U.S. national debt in excess of $18 trillion.

The National Association of Federal Credit Unions (NAFCU) website lists the following reasons why credit unions should continue to enjoy the federal tax exempt status:

- *Credit Unions Would Lose their Identity: By necessity, credit unions would have to increase profits and customer service would likely suffer*

- *Rates and Fees: If the exemption is repealed, it would adversely impact savings and borrowing rates as well as increase fees*

- *Capital: If the tax exemption is repealed it would further restrain the ability of credit unions to raise capital and potentially impact safety and soundness*

- *If the tax exemption is repealed it will lead to erosion of the volunteer base: As credit unions become "more like banks," the self-help, volunteer characteristic of credit unions, and the community as a whole, would become less distinct*

On closer inspection, it is easy to see that the arguments are self-serving and are contrary to good economic or public policy. In competitive markets, mutual savings banks have thrived despite losing their tax exempt status. They have become more innovative, efficient and are still meeting the needs of customers. In Canada and Australia, credit unions are no longer tax exempt and, by many indications, are competing well against other financial institutions. With government protection, it could be argued that credit union growth potential is even further hampered and

that if the products and services are as good as banks without industry protection, they will stand well on their own against banks.

This competitive situation is playing out in the sales tax debate between sales taking place in an actual store vs Internet sales. Historically, sales tax is due when the buyer buys a product from a store, which is located in the state where the buyers reside. Most Internet sales however, cross state lines and thus are not taxed. Local businesses suffer tremendously. To make matters more complicated, states are also losing a significant chunk of revenue. This policy also derived its theoretical foundation from the infant industry argument. When a new technology or business practice hits the market, a cry for protection becomes loud because governments are eager to protect and nurture this "newness" and facilitate their emergence. But the question that must be answered is for how long must the government continue to protect Internet sales to help e-commerce? Once e-commerce passes its state of infancy shouldn't it be expected to compete on its own merits? The government answer to this question has been affirmative. Now consumers who reside in a state that has sales tax are required to pay taxes for purchases from the Internet, even if the Internet sellers are not collecting it. The tax must be paid directly to the state and is usually called a use tax instead of the sales tax. This remedy was needed to protect local stores from the unfair advantage that Internet sellers were deriving from their tax exempt status.

V. The Economic Effects of Tax Exemption for Credit Unions

According to a study sponsored by the NAFCU in February 2014, the cost of not removing the credit union tax exemption is about $15 billion in lost income tax

revenue over the next 10 years. NAFCU argues that this loss of revenue is miniscule compared to the benefits that such tax exempt credit unions generate. However, what the study fails to mention is that credit unions are the entities that actually benefit from that more than $1.5 billion in tax subsidy granted to credit unions each year. To make matters worse, this tax subsidy will only **increase** into the future. With the impressive growth rates that credit unions are experiencing now and expected to experience in the future, the potential loss of tax revenue will increase even greater. (It should be noted that the U.S. Treasury Department estimates the loss of tax revenue to be far greater than the NAFCU, estimating that the loss of tax revenue due to the tax exempt status of credit unions is $25.39 billion between 2014-2024.)

The expected beneficiaries for the tax exempt status enjoyed by the credit unions include:

- Depositors of credit unions, as they might be earning a higher rate on their deposits.

- Borrowers from credit unions, as they might be paying lower interest rates on their loans from credit unions.

- Managers and administrators of credit unions, who might be earning an incomparably higher compensation package.

- Owners of credit unions, who are also the depositors, accumulate a higher amount of retained earnings. This increase in retained earnings has contributed to the enhanced capital base of credit unions, which in turn has helped credit unions to experience such phenomenal growth.

- Sponsors of credit unions, especially in occupational credit unions, where the tax exemption reduces the cost of sponsoring credit unions. Many employee-based credit unions, like the Dow credit union in Michigan, benefit from the

> tax exemption. Employees at Dow often see this membership to the Dow credit union as an attractive benefit package provided by Dow. Due to the federal tax exemption, it takes less money to operate the credit union, and this benefit is thus partially funded by the federal government.

Dr. John Tatom (2004) conducted a comprehensive study on the comparative advantage enjoyed by credit unions due to the federal tax exemption. He estimated that with the tax rate at 33 percent and the average rate of return on assets at 1 percent, the return on assets before taxes in the absence of exemption would have to be 1.50 percent, 50 basis points higher. Thus, 50 basis points is the amount of subsidy that accrues to credit unions who are beneficiaries of this tax exemption. He further estimated that six of the 50 basis points go to borrowers in the form of lower interest rates, while 11 basis points are attributed to a higher labor cost. The rest of the 33 to 44 basis points accrue to credit unions as higher equity, or higher retained earnings. Reducing this tax exemption would reduce the enhanced retained earnings that have enabled the credit unions to

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record phenomenal growth. The owners of credit unions receive this tax savings not necessarily in the form of high dividends, but often in the form of higher retained earnings that help fuel the growth in the industry witnessed in the last decade.

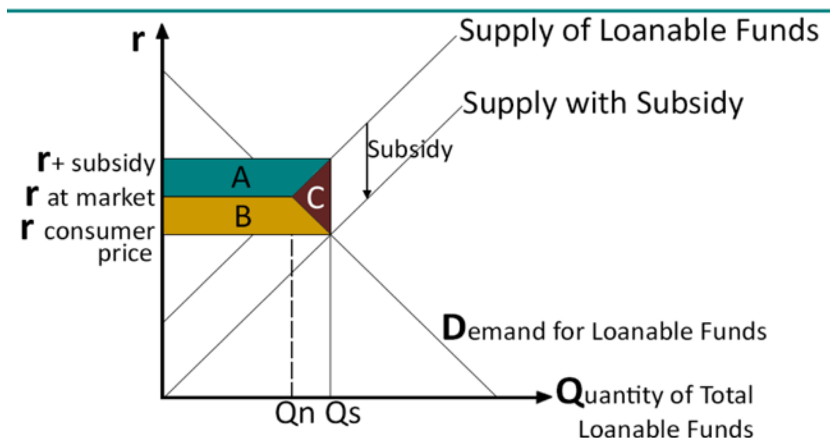
A basic economic analysis shows how the tax exemption has been instrumental in distorting the allocation of resources and how it has encouraged the diversion of deposits and credits to credit unions from other financial institutions in the United States. The distortion in the allocation of resources resulted in loss of economic welfare for all Americans, except those directly involved with credit unions. What is more important is that the loss (welfare loss) to all Americans exceeds by a multiple the gains those stakeholders of the credit union industry enjoyed.

When there are multiple players in an industry, but only one player receives a tax exemption, it creates an artificial advantage for the exempted player. In the context of the United States financial sector, tax exemption creates an unfair advantage for credit unions. Credit unions can attract more deposits and more resources away from banks, not because they are more effective, but because they have received an unfair competitive advantage. Banks and other financial institutions simply are not on a level playing field. This loss of resources from one player to another caused by preferential tax treatment contributes to less than optimal allocation of resources resulting in overall industry inefficiency and waste. This is what economists' term as "dead weight loss." This is the cost to the society that is created by market inefficiencies. In this case, the inefficiency is created by

the tax exemption status that is granted solely to credit unions and not other players in the financial sector. This allows credit unions to over produce deposits and loans, because of the unfair comparative advantages granted by the tax exempt status, and other financial institutions including banks to under produce, creating a distortion of resource allocation. In the absence of such tax exemption, market forces would make demand equal to supply, producing equilibrium. However, in the absence of equilibrium, the over production in one sector and under production in other sectors impose a cost on the society. This cost is referred to as the dead weight loss.

Using a basic demand and supply analysis to evaluate the effects of tax exemption for credit unions, the effects of tax exemption on the interest rate charged, and quantity of loans extended by credit unions can be explained. The demand curve for loans from credit unions has a negative slope indicating that the demand for loans from credit unions will increase if the interest charged by credit union for such loans is reduced, but will decrease if the interest rate charged by credit unions is increased. Thus, there is a negative relationship between the interest rate charged by credit unions and the demand for loans from credit unions. In Chart 8, the demand curve for loans from credit unions

Chart 8: Dead Weight Tax Loss Due to Credit Union Tax Exemption



Source: NCUA Annual Report

is denoted by the Demand for Loanable Funds curve which is downward sloping **(See Chart 8)**.

The demand curve for loans from credit unions would be horizontal, if credit unions did not have the power to set interest rates, but accepted the interest rates established in the market. The fact that credit unions face a downward sloping demand curve for loans indicates that they have some control over the interest rate they charge, which is not possible if credit unions were part of a perfectly competitive economy. Having a downward sloping demand curve for loans indicates that credit unions are behaving like a monopoly with the disparate advantage.

The supply curve for loans is positively sloped when we make the assumption that the supply curve reflects true cost, which is the cost of capital on top of the operating cost. The supply curve for loans has a positive slope since the cost of capital increases as credit unions supply more loans. Extending more loans implies that the credit union will need more deposits. This means that they have to pay a higher interest on deposits to attract more deposits. This increases the cost of loans and the interest rate credit unions must charge to extend loans. The cost of capital is determined by competitive return to owners of capital and the returns to owners are also impacted by tax. So taxation on the returns to owners would raise the cost and have the effect of shifting the supply curve to the left. In Chart 8, the supply curve for loans from credit unions is denoted by the Supply for Loanable Funds curve, which is positively sloped.

If credit unions had to pay taxes like all other financial institutions in the United States, they would face a supply curve for their loans denoted by the Supply

of Loanable Funds curve and a demand curve denoted by Demand for Loanable Funds as we see in Chart 8. Equilibrium interest rate charged would have been given by "**r**" at market, and equilibrium quantity of loan made would be $\mathbf{Q_N}$. In this case, the price can be seen as interest charged on loans extended by credit unions. However, with tax exemption (which acts like a subsidy), the supply curve shifts down and to the right to Supply with Subsidy curve. The new equilibrium interest rate is lower at **r Consumer Price** and the new quantity of loans extended increases to $\mathbf{Q_S}$. Credit unions charge a price equal to **r + Subsidy**, as given by their supply curve and the government pays the difference between what they receive (**r + Subsidy**) and what consumers pay (**r Consumer Price**) in terms of the tax exemption or the subsidy.

The welfare effects of this tax exemption can be better understood by introducing the notion of producer and consumer surplus. These notions are used to explain effects of government policies on the general welfare of its citizens. Specifically, the welfare aspects can be explained by two important concepts in economics; (1) consumer surplus, and (2) producer surplus.

Consumer surplus is the difference between what a consumer is willing to pay (as indicated by the height of the demand curve) and what the consumer actually pays (the market price). Producer surplus is the difference between what the producer gets paid (market price) and the producer was willing to accept as indicated by the height of the supply curve.

In Chart 8, we can see that with tax exemption for credit unions, the consumer surplus increases by the area B and the producer surplus increases by the

area A. Thus, the sum of consumer and producer surplus increases by the area A plus B. However, the cost of the tax exemption (tax expenditure) is given by the product of the tax exemption per unit of loan and the quantity of loans made with the tax exempt status. The tax exempt per unit or the subsidy per unit is given by the vertical distance between **r Consumer Price** and **r + Subsidy**. The quantity of units subsidized or exempt from tax is given by $\mathbf{Q_S}$. The product is given by the area by the area A + area B + area C.

The sum of consumer and producer surplus is Area A + Area B. This is the part of the tax exemption (or government subsidy) that goes to consumers and producers. In this case the consumers are the credit union borrowers, while the producers are owners of the credit unions. In the case of credit unions, because only owners can borrow, both belong in the same group. The cost of tax exemption to the government is given by Area A + Area B + Area C. This is what it costs the taxpayer to provide the credit union their tax exemption. It should be noted that the cost to the government exceeds the gain to credit unions by the area C. Area C goes to no specific group. This is cost that accrues to all American taxpayers. Economists call this "dead weight loss" caused due to distortions in resource allocations. Distortions in resource allocations are usually caused when the government gives tax exemption to one player and not to the others in the same industry. In this case, the

It should be noted, that the cost to the government exceeds the gain to credit unions…

tax exemption given to credit unions and not to other financial institutions in the U.S. causes distortion in resource allocation contributing to this dead weight loss.

Specifically, the tax exemption allows the credit unions to charge an interest rate lower than the market rate, and allows them to draw away borrowers from banks and other financial institutions. This means that credit unions can extend loans more than the optimal amount as determined by their own demand and supply conditions. Also, banks can extend loans lower than the optimal amount, given their own demand and supply conditions. So taxpayer money is used to create sub-optimal solutions for both credit unions and banks, which explains this waste and the dead-weight loss.

It is clear from Chart 8 that if the tax exemptions were removed, the supply curve for loans from credit union would shift up and to the left. The immediate effect would be a rise in the interest rates charged by the credit unions and the quantity of loans extended by the credit unions would decrease. However, this is not necessarily negative. Consider three separate scenarios:

a. Consider the normal case where the supply curve for loans made by credit unions is positively sloped. This means that as the supply of loans increases so does the interest charged on the loans. This is because credit unions have to increase deposits to extend more loans, and in order to increase deposits, credit unions have to pay higher interest rates on deposits. So when the tax exemption is withdrawn, the volume of loans extended by credit unions will be lower, which means they now have to attract fewer deposits, which in turn means they have to pay a lower rate on deposits. So although they will have to charge a higher interest rate without tax exemption, they will also end up paying a lower rate on deposits. This would lessen the impact of the removal of the tax exemption on loan rates and volumes for credit unions.

b. If on the other hand, there was a perfectly elastic supply curve which made the supply curve for loans horizontal, it would imply that the credit union deposit rates did not depend on loan volume. In that case, the removal of the tax exemption would mean an increase the interest rate on loans without a

compensating decline in the interest paid on deposits. However, it is important to remember that the interest rate for credit unions would only increase to the market rate that is charged by all other financial institutions that do not enjoy the tax exemption. With the tax exemption, the interest rate charged by credit unions is lower than the market rate. Since the products offered by credit unions have substitutes available in the market, removal of the tax exemption would only force the credit unions to raise the rates to the market rate.

...removal of the tax exemption would only force the credit unions to raise the rates to the market rate.

c. If the demand curve for loans was horizontal, indicating that the demand curve for loans is perfectly elastic, the removal of tax exemption would only reduce the loan volume without any impact on interest rates. This implies that if the tax exemption privilege is removed from credit unions, they behave like a perfectly competitive firm where their action will not affect market price. Their share of the market will fall, as they cannot sustain the market share artificially through the tax exemption gifted to them by the federal government.

The ultimate effect of the removal of the tax exemption will depend on elasticity of demand and supply for products offered by credit unions. However, the removal of the tax exemption will have the following beneficial impact:

- The government will save an annual tax expenditure of at least $1.5 billion a year, if not much more, if the current growth rate of the credit unions is maintained.
- The dead weight loss of tax exemption or subsidy will be eliminated. There will be no misallocation of resources, where the government tax exemptions are actively encouraging the diversion of resources from other financial institutions towards credit unions. Resources will be used more efficiently and will contribute to a higher GDP growth rate.
- Retained earnings of credit unions financed by American taxpayers will decrease. The growth of the credit unions has been funded by the American taxpayers to the detriment of other financial institutions operating in the United States.
- Credit unions will see a decline in their assets and equity, a reduction in their relative size and smaller growth rates. However, all these factors

...all these factors could effectively contribute to making credit unions better managed financially, with growth coming from higher efficiency and not from government handouts.

could effectively contribute to making credit unions better managed financially, with growth coming from higher efficiency and not from government handouts.

Existing financial institutions will fill in the void and gain the market share lost by the credit unions. Since these institutions are not tax exempt, tax revenue would increase significantly.

VI. Credit Unions and the Community Reinvestment Act

In 1977, Congress enacted the CRA. The Act was designed to encourage banks to meet the needs of the local communities. The law demanded that banks not only serve all communities, especially low and moderate income areas, but also that they collect and report detailed data to prove that they are serving these communities. There are serious penalties for non-compliance.

Congress deliberately left out credit unions from the CRA's requirements. The legislative history on this issue is a bit unclear, although it is quite understandable that Congress did not mandate a role for credit unions in the CRA at that time because it believed that credit unions simply did not have enough resources to have any impact on community reinvestment. Banks had an asset base that exceeded a trillion dollars, compared to a $30 billion asset base among credit unions. Today, credit unions are much bigger and diversified with more than a trillion dollars in assets. They are also operationally more diverse, serving different communities that they bring in as members. Credit unions now have both the resources and the infrastructural capacity to have an impact on the rebuilding of communities, as intended by the CRA. Perhaps Massachusetts and Connecticut can both serve as guideposts for Michigan and the U.S. Congress as state chartered credit unions in both states are subject to the CRA.

Credit unions now have both the resources and the infrastructural capacity to have an impact on the rebuilding of communities as intended by the CRA.

The second reason why Congress probably excluded credit unions from CRA is that credit unions only served their "members," who shared a common bond. These members were homogeneous in terms of their risks to credit unions and hence, they did not have the means or the incentives to violate the provisions of the CRA. Since 1982, with the reinterpretation of the requirements of memberships, and the advent of multiple "select-employee groups" within a single credit union, credit unions have both the means and the incentives to engage in activities that Congress feared and which prompted the enactment of CRA in the first place. Credit unions now have the resources to pick communities and occupations that are fiscally sound and low risk and exclude perceived less profitable communities and occupations. Credit unions can do that legally by simply defining the criteria for membership or simply not lending to lower income consumers. In addition, multi-common bond credit union and community credit unions have the ability to selectively invest in projects where returns are the highest, completely ignoring the actual needs of the communities. Credit unions can do this legally by creating a mix of "self- employment groups," where one group can raise the funds necessary to invest in projects that benefit some other group. In Michigan, they may also select geographically defined markets, allowing credit unions to serve only higher income areas.

Credit unions now have the resources to pick communities and occupations that are fiscally sound and low risk and exclude perceived unfavorable communities and occupations. Credit unions can do that legally by simply defining the criteria for membership or simply not lending to lower income consumers.

It is ironic that the federal government required profit-making organizations such as banks to serve the needs of low- and moderate-income consumers in the community—even if it means making less money—but did not apply similar burdens on tax exempt institutions like credit unions. It is imperative that credit unions be held to the same standard when they are established within a community.

However, community credit unions regardless of their size, as well as multiple-bond credit unions should be subjected the same standards as banks since they are closest to a bank in their interaction with the community and often big and diversified enough to have the capabilities to serve the communities.

Regulators should conduct the same "lending test" that they use on banks to evaluate compliance. They should look into the number, amounts and the distribution of loans that originated in a single credit union. They should also check how flexible the lending criteria of credit unions are, if they meet the standards of sound credit management, and also serve the needs of the low and moderate income groups. This test will ensure that credit unions are complying with their purpose of serving all members, not just a selected few that are more profitable.

Regulators should also test the conditions under which a credit union is formed and the conditions of its expansion. Specifically, the regulators should check the kings of "select-employee groups" credit unions are bringing in as members and whom are they excluding. Additionally, it is important to check the mergers and acquisitions of credit unions to determine if and how they are reaching out to lower income employee groups or low-income communities. Such tests would reveal if credit unions are adopting discriminatory formation and expansion policies.

VII. Conclusion

Whether or not the tax exempt subsidies were once justified in the public interest, it is clear today that credit unions can no longer justify having tax exemptions not afforded to their banking counterparts. It is hard to imagine that a small bank in the Upper Peninsula of Michigan, serving the diverse needs of an impoverished community should face the burdens of an income tax while a local credit union remains tax exempt. It is even more difficult to continue to justify that the 229 U.S. credit unions that each have assets of $1 billion or more and make up a disproportionally large segment of an industry that has more than $1.136 trillion in assets, remain income tax exempt. Again, how can one justify that 229 mega credit unions are afforded an income tax exemption while that small rural bank in the Upper Peninsula of Michigan continues to pay taxes? As noted earlier in this study, the credit union tax exemption is a Depression-era tax break that for many credit unions has outlived its purpose. It no longer supports the public policy of providing financial services to low- and moderate-income consumers. Previous administrations—both Democratic and Republican—have recommended ending the credit union industries tax exemption. Again, this study shows that the credit unions and their favored tax status have leveraged that benefit to become as large as many banks and offer similar products and services with a bias to more wealthy customers rather than serving populations that need a credit union lending option most. Economic models show that, by removing the uncompetitive advantage, communities would benefit from additional oversight and reinvestment and a significant tax loophole would be closed to level the playing ground among all

financial institutions. Credit unions would become more efficient and effective in their financial practices, maintain competitive products and provide services to a more broad and diverse base of customers. The time has come for Congress to abolish this special tax exemption. It would be a fiscally sound way to help reduce the national debt, enhance competition and eliminate distortions in the financial services industry. It has worked in Canada and Australia, why not here in the United States?

In addition, if the CRA is effective in its mandate to promote the extension of lending and banking services to low and moderate communities, why should it not apply to credit unions as well? The data show that credit unions in Michigan and nationally are underserving minorities and low-income populations relative to their original charter and purpose and are certainly lagging behind relative to banks in serving said populations. Clearly the CRA is something that should apply to all financial institutions including credit unions, especially those with a billion dollars in assets or more. If in fact, the CRA does not apply to large credit unions, why should it apply to financial institutions at all?

> *...data show that credit unions in Michigan and nationally are underserving minorities and low-income populations relative to their original charter and purpose...*

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Zac Dawes is a graduating senior, majoring in economics at Northwood University. He works part time as a research student for the University. He used to be a reporter for Mackinac Center's Michigan Capital Confidential. He earned the President's list and academic tutor of the year from Northwood University.